

# Henry George Newsletter

High School Edition



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## HOW FREE TRADE CAN PROMPT GROWTH

Several years ago one would not have seen the press coverage currently being given to international trade. And rarely would one see a front page article devoted to the subject. All that has changed, however, as the recession has focused the American public's attention on the integral links between trade and the national economy. And the debate that recently centered around the passage of NAFTA (the North American Free Trade Agreement) has raised the public's awareness of the nation's links to the global economy. While narrowly winning passage through Congress, NAFTA had the healthy effect of broadening the debate about protectionism and free trade. While this article has a more general focus on the trade issue and does not get into the specifics of NAFTA, it does offer a revealing look at the ideologies behind the issues. This article can be used with the Land & Freedom series American History #5- *Mercantilism*, Economics #18- *Comparative Advantage* and #19- *Free Trade or Protection*, and World History #5- *Mercantilism* and #10- *The Forerunner of Germany - Zollverein*.

## WHAT'S NEXT FOR WORLD TRADE ?

In addition to NAFTA, which received much of the publicity on international trade, there is also GATT (General Agreement on Tariffs and Trade). Whereas NAFTA dealt with only three countries (the U.S., Canada and Mexico), GATT concerns well over one hundred countries. This article can be used with the same readings as above.



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## BRITANNIA FINDS LESS TO RULE

Before World War II, Great Britain was the leading imperialist nation, with colonial possessions around the world. But all that changed at the end of the war as colony after colony declared independence. This article, cartoon and questions can be used in conjunction with World History #5 - *Mercantilism*.

## HIGHLIGHTS

The United States and 116 other nations agreed to reduce tariffs and revise the framework that has governed most international trade for 45 years.



**CHANGES.** The US and the European Community will cut tariffs on each other's goods in half, on average. Tariffs on goods from the rest of the world will be cut less. Agricultural tariffs will be reduced by 36 percent in industrial nations and 24 percent in developing countries.



**EFFECTS.** The agreement is expected to stimulate business and investment activity by opening markets and encouraging countries to specialize in producing whatever goods they can make most efficiently.



**UNRESOLVED ISSUES.** Negotiators could not reach agreement on free trade involving movies, television programs and music; civil aircraft; shipping and financial services like banking and stock brokerage. Put aside for the time being, these issues may fuel future disagreements.



**RATIFICATION.** Under a Federal law, Congress must approve or reject the agreement by April 15. The other countries have until mid-1995 to ratify it.

The Department of Veteran Affairs has put together a small packet of information on the United States Flag. This package includes: the Pledge of Allegiance, Guidelines for Displaying the Flag, Background to the Star-Spangled Banner, Origins of Veteran's and Memorial Day and a brief history of the National Cemetery System.

Write to: Department of Veteran Affairs, Washington D.C. 20420

## FREE MATERIALS FOR TEACHERS

The Smithsonian Resource Guide for Teachers is a catalogue of educational materials from the Smithsonian Institution and several organizations affiliated with the Smithsonian - the National Gallery of Art, the Kennedy Center for the Performing Arts and Reading is Fundamental. The guide contains more than 400 entries, each of which is listed under easy to use topic headings. Some of the materials listed are free; many have a nominal fee.

Write to: Office of Elementary and Secondary Education, Smithsonian Institution, Arts and Industries Building, Room 1163, MRC 402, Washington D.C. 20560

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# HOW FREE TRADE PROMPTS GROWTH

by Peter Passell

Free trade means growth. Free trade means growth. Free trade means growth. Just say it 50 more times and all doubts will melt away.

Those who dutifully followed the debate over the North American Free Trade Agreement and are now struggling to figure out what the General Agreement on Tariffs and Trade has to do with the price of peas in Peoria may be excused for a dash of skepticism about a link that is more often asserted than explained. It is, in fact, one of the most widely held yet most difficult to prove ideas in economics.

In the end, the nearly universal conviction that open trade drives global prosperity rests more on observation than on well-developed theory: "We all noticed that the countries doing well were exporting like crazy," said Stanley Fischer, the World Bank's former chief economist.

College instructors love to illustrate the British economist David Ricardo's insight about the gains from free trade with a story about Woodrow Wilson. President Wilson, they say, could type faster than his secretary. But it made sense to leave White House correspondence to others so he could concentrate on making the world safe for democracy and other higher-productivity endeavors.

By this same rule of "comparative advantage", it made economic sense for Victorian England to break the political influence of its cosseted farmers by opening its borders to wheat from central Europe and North America. That allowed entrepreneurs to focus more capital and labor on manufacturing, where it could (and did) make Britain the richest country on earth.

These gains from economic specialization are still nothing to sneeze at. The World Bank estimates that in 1985 free trade in dairy foods would have lowered average prices by two-thirds and doubled global output. All told, free trade in grain, meat, milk and sugar would have added \$40 billion to world income - mostly by shifting production away from Western Europe and toward lower cost producers.

And the organization for Economic Cooperation and Development calculates that the combination of reduced tariffs and more generous import quotas penciled into the new GATT accord would increase world income by \$270 billion annually by the turn of the century.

Big as these numbers are, they are modest compared with the total world output, which will probably exceed \$30 trillion a decade hence. And even if one imagined free trade nirvana in which skirts sewn in Jakarta

could be sold as freely in Seattle as shirts made on Seventh Avenue, the direct impact of the resulting global specialization of production would not be overwhelming.

Gary Hufbauer and Tim Elliott of the Institute for International Economics in Washington estimate that free trade would add about 1 percent to the average American's income.

Why, then, is Sebastian Edwards, a development specialist at the University of California at Los Angeles, convinced that "free trade is the cornerstone to modern economic systems?" Because it does not take an econometrician to tell which way the winds of prosperity have been blowing.

Compare the economies of Asia that stumbled into the 1960's in more or less wretched condition. Those that focused on the expansion of trade (Hong Kong, Taiwan, Singapore, South Korea, Thailand, Malaysia) have done very well. Those that tried to develop by pushing for self-sufficiency (India, Vietnam, Myanmar, North Korea) have done very badly. And those that came late to the open trade game but are now big players (Indonesia, China) seem to be on their way to a chicken in every wok.

In the end such comparisons may be the only hard evidence that economists have. But it has not stopped them from speculation about the inner workings of the machinery translating trade into growth.

The puckish explanation, suggests Paul Krugman of the Massachusetts Institute of Technology, is that the relationship is, in fact, specious, that cause has been confused with effect.

Countries ready to grow may be more inclined to gravitate toward open trade. More specifically, the cultural values that seem to underpin growth - thrift, rule of law, respect for property rights, fiscal discipline - may also create political systems that are better at defending the interests of efficient, export-minded producers against those of groups demanding a free economic ride.

Certainly the view of the overwhelming majority of economists, though, is that trade kindles growth. "Trade is a vehicle for technology transfer," Mr. Fischer points out, flashing what many see as the free-trader's trump card. The successful Asian economies that protect local producers of consumer goods, he notes, have been careful to permit easy access to modern foreign equipment and materials.

What's more, openness to imports generally pays greater dividends than access to faster computers and tougher plastics. It also offers the chance to "learn by looking",

suggests Mr. Edwards - "to be exposed to foreign ideas on a massive basis."

Mr. Fischer concurs: "Ten years ago, it was said that Israeli firms didn't know how to package or market what they sold. Now they've learned."

Trade is also a source of competition for would-be local monopolists, keeping prices down and disciplining the locals to reduce waste. And it can have a critical impact in less obvious ways. "Without the Japanese to lead the way on quality control and fit and finish," argues Robert Crandall of the Brookings Institution, it is hard to imagine that Detroit would have pulled up its socks.

Mancur Olson, the director of the Center on Institutional Reform and the Informal Sector at the University of Maryland, offers another connection between trade and competition-spurred growth. In every economy special interests are organizing to slow change, he suggests, creating sinecures for themselves and generally preventing boat-rocking innovation. This, he believes, goes a long way toward explaining the failure of many poor countries to grow and the tendency of industrialized countries to catch what has become known as "the British disease."

But economic systems can be made more resistant to the infection by increasing the number of actors - companies, unions, property owners - who must be organized and kept in line in order to stifle competition. "The smaller the economy," Mr. Mancur reasons, "the greater the likelihood of successful collusion."

Thus, he explains, expanding the economic borders of economies helps, as in the case of the European community or the North American Free Trade Agreement, "But global free trade helps even more."

*-Reprinted from the New York Times*

## QUESTIONS

1. How does the anecdote about President Wilson illustrate the ideas of David Ricardo?
2. Cite the advantages of trade espoused by the World Bank and the Organization for Economic Cooperation and Development.
3. Compare the evidence given of nations supporting free trade and those supporting protectionism.
4. Evaluate the explanation of Paul Krugman on the relationship between trade and growth.

# WHAT'S NEXT FOR WORLD TRADE ?

by Howard LaFranchi

Trade negotiators who were jubilant at the successful conclusion of the seven-year-old Uruguay Round sounded like the winners in an American presidential campaign: It was worth the fight, many said.

But most participants of the General Agreement on Tariffs and Trade (GATT) agree that the likes of this round, which took up everything from agriculture to services and future technologies, will not be seen again. At the same time,

like Greenpeace and the World Wildlife Fund say they will oppose national ratification.

Other areas which might be taken up by the future World Trade Organization - GATT's successor - include competition policy, worker's rights, investment rules, and developing-world issues, such as commodities trade (coffee and tin, for example) and migrant workers. The European Union (EU) is keen to address competition. With the growing importance of multinational corporations, questions of industrial subsidies, mergers, and monopoly will become more vital. The US has pressed for talks on international standards for workers' rights - a move generally opposed by developing nations who fear it would be a cover for shackling countries with low labor costs.

Many business leaders warn, however, against increased regulation.

"We want to watch now for moves that would replace tariff measures with bureaucratic impediments to trade," says

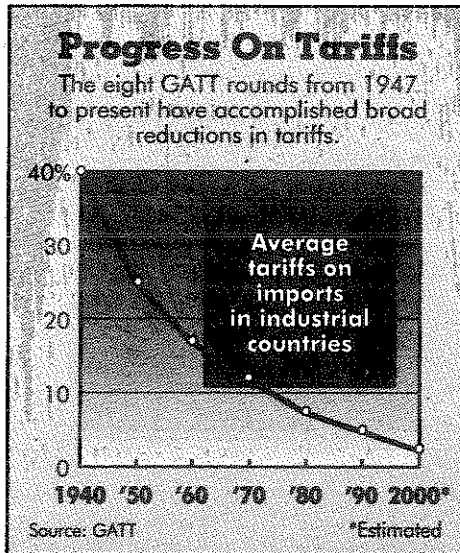
Caroline Walcott, assistant secretary general of the European Roundtable of Industrialists.

Trade officials from developed countries will also be keeping an eye on China's accession to GATT and the conditions for admission.

China's bid to rejoin GATT after a 43-year absence has been stalled by the US and the EU, who want special measures to guarantee against floods of Chinese products. Growing impatient, Chinese officials this week said they might forgo membership if China is not readmitted by 1995.

But other countries are concerned about how the coming economic giant might skew world markets. "It's not a question of China acceding to GATT," quipped one GATT official recently, "but of GATT acceding to China."

Reprinted from the Christian Science Monitor



calls for international negotiations on issues ranging from trade and the environment to workers' rights, probably mean new talks are not far off.

One of the Uruguay Round's problems was that "new" issues arose that in 1986 were not commonly linked to trade negotiations. One example is the environment: Now many see the link between trade and dwindling resources - for instance, between log exports and deforestation.

United States chief trade negotiator Mickey Kantor says environmental issues must be taken up in international trade talks soon after ratification of the Uruguay Round - expected by January 1995. Sooner still, a work program on the environment is to be presented for approval when trade ministers meet in Marrakesh, Morocco, next April to sign the accord.

But for "green" groups that may not be substantial enough. If the work program does not promote action, groups

## Global Economic Gains by 2002

These figures were based on a projected 30 percent worldwide tariff reduction. In fact, GATT negotiations did slightly better, coming up with \$230 billion in annual gains by the year 2005.

Annual gains from trade liberalization in billions of 1992 dollars	Sub total
China	\$37.0
Low income Asia	1.8
India	4.6
	<b>43.4</b>
Indonesia	-1.9
Upper income Asia	20.6
	<b>18.7</b>
South Africa	-0.4
Other Africa	-0.6
Nigeria	-1.0
Maghreb nations	-0.6
	<b>-2.6</b>
Mediterranean	-1.6
Gulf Region	3.1
	<b>1.5</b>
Brazil	3.4
Mexico	0.3
Other Latin America	4.4
	<b>8.1</b>
US	18.8
Canada	2.5
Australia/New Zealand	1.1
Japan	25.9
EU	80.7
EFTA	12.8
	<b>141.8</b>
Eastern Europe	1.4
Former Soviet Union	0.8
	<b>2.2</b>
<b>TOTAL</b>	<b>\$213.1</b>

Source: OECD, May 1993

## QUESTIONS

1. What issues does GATT deal with?
2. Name some other issues that may be on the agenda for future negotiations.
3. What are some of the concerns expressed by the US and the European Union?
4. Based on the chart PROGRESS ON TARIFFS, cite the accomplishments of the past 50 years.
5. Based on the chart GLOBAL ECONOMIC GAINS BY 2002, analyze the gains according to economic areas.

# BRITANNIA FINDING LESS TO RULE

by Alexander MacLeod

After two years of witnessing marriage breakups in her own family circle, Queen Elizabeth II is being forced to contemplate a fraying of the British Commonwealth family of nations of which she is the head.

Paul Keating, Australia's prime minister, wants his country to break its constitutional links with the British Crown.

In a tense encounter on September 19, 1993, Keating told the queen he intends to call a referendum and ask voters to declare

nationhood," he says.

In Australia, opponents accuse Keating of trying to curry favor with voters when the economy is weak. Sneering at his fondness for Italian lounge suits, anti-Labor newspapers have dubbed him "the Lizard of OZ."

Opinion polls in Australia suggest a groundswell of republican sentiment, especially among young people and older citizens who trace their origins to southern Europe and Asia.

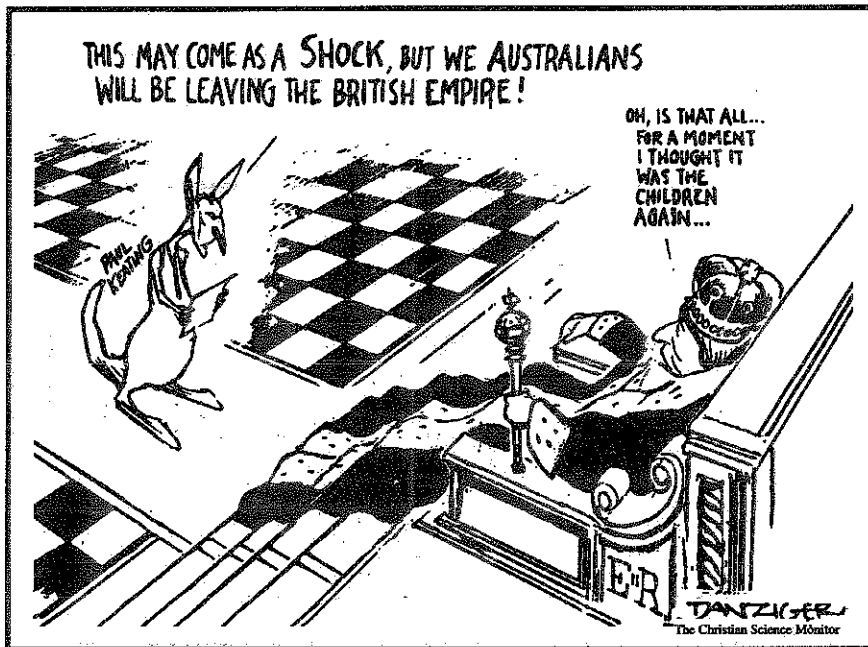
Derek Ingram, a British journalist who has covered Commonwealth affairs for more than 30 years, predicts that Keating's bid for republican status may be "a messy affair."

"There will be strong opposition from Australians who prefer the status quo," Mr. Ingram says.

Officials at the London-based Commonwealth Secretariat, which coordinates links between member states, argue that in some ways cutting Australia's constitutional link with Britain would make "little apparent difference."

According to Derek Lyon at London University, the queen is unlikely to see things that way. "I think she will be very sad," he says. "She has invested a huge amount of personal effort in the Commonwealth, which she looks on as a family, and she has particular affection for Australia."

*Reprinted from the Christian Science Monitor*



Australia a republic. After the meeting at Balmoral, the royal holiday castle in Scotland, Mr. Keating said the queen told him she would accept "any decision made by the Australian people."

Australia, like Canada, New Zealand, and several of the Commonwealth's 50-plus countries, retains the queen as head of state. This means that, as well being Britain's monarch, she is the constitutional head of Australia and other former British dependencies. Instead of having presidents, such countries have governors-general appointed by the queen and prime ministers who are chosen after a popular election.

Peter Lyon, head of Commonwealth studies at London University, thinks Australians will vote to end the link with Britain.

"It may not happen by 2001, Keating's preferred date, but I think it is probably inevitable," Dr. Lyon said. He adds that other Commonwealth countries, such as Jamaica, Papua New Guinea, and even Canada and New Zealand are likely to follow suit eventually.

Keating, a Labor Party politician of Irish Catholic descent, claims that he wants his country to be a republic not because he dislikes Britain or the queen, but because he would prefer Australia (in relaxed moments he calls it "OZ") Australia to assert its own identity. "We are not talking about treason but about

## QUESTIONS

1. What would be a good title for this cartoon?
2. Why do some Australians want to petition for independence?
3. In the cartoon, what does the Queen's comment mean?
4. Name some of the other monarchies in the world.
5. How much power does the British Monarch have?

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